

**REPORT OF THE AUDIT OF THE  
FORMER PIKE COUNTY  
SHERIFF**

**For The Period of December 1, 2002  
Through January 5, 2003**



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C R I T L U A L L E N  
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable William M "Bill" Deskins, Pike County Judge/Executive  
Honorable Noah Stephen Friend, Former Pike County Sheriff  
Honorable Charles "Fuzzy" Keesee, Pike County Sheriff  
Members of the Pike County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the former Sheriff of Pike County, Kentucky, for the period December 1, 2002 through January 5, 2003.

We engaged Ross & Company PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the former Pike County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





**REPORT OF THE AUDIT OF THE  
FORMER PIKE COUNTY  
SHERIFF**

**For The Period of December 1, 2002  
Through January 5, 2003**

**ROSS & COMPANY, PLLC  
Certified Public Accountants  
800 Envoy Circle  
Louisville, KY 40299  
Telephone (502) 499-9088  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE FORMER PIKE COUNTY SHERIFF**

**For The Year Period of December 1, 2002  
Through January 5, 2003**

Ross & Company, PLLC has completed the Former Pike County Sheriff's audit for the period of December 1, 2002 through January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

#### **Financial Condition:**

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and periodically paid to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

Fee account balances decreased by \$53,024 from the prior calendar year, resulting a balance of \$0 as of January 5, 2003.

#### **Report Comment:**

- Lacks Adequate Segregation Of Duties

#### **Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.





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To the People of Kentucky

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Honorable Noah Stephen Friend, Former Pike County Sheriff

Honorable Charles "Fuzzy" Keese, Pike County Sheriff

Members of the Pike County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts and disbursements of the former County Sheriff of Pike County, Kentucky, and the statement of receipts, disbursements, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer for the period of December 1, 2002 through January 5, 2003. These financial statements are the responsibility of the Former County Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Former County Sheriff prepares the financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the receipts and disbursements of the Former County Sheriff and the receipts, disbursements, and fund balances of the Former County Sheriff's operating fund and county fund with the State Treasurer for the period of December 1, 2002 through January 5, 2003, in conformity with the modified cash basis of accounting.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable William M "Bill" Deskins, County Judge/Executive  
Honorable Noah Stephen Friend, Former Pike County Sheriff  
Honorable Charles "Fuzzy" Keese, Pike County Sheriff  
Members of the Pike County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated January 23, 2004, on our consideration of the Former County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive, flowing style.

Ross & Company, PLLC

Audit fieldwork completed -  
January 23, 2004

PIKE COUNTY  
NOAH STEPHEN FRIEND, FORMER COUNTY SHERIFF  
STATEMENT OF RECEIPTS AND DISBURSEMENTS

For The Period of December 1, 2002 Through January 5, 2003

Receipts

State - Kentucky Law Enforcement Foundation Program Fund	\$	4,395
State Fees for Services		8,236
Circuit Court Clerk		
Arrest Fees	\$	90
Sheriff's Security Service	<u>2,944</u>	3,034
Fiscal Court		109,869
County Clerk		1,843
Commission on Taxes Collected		100,131
Fees Collected for Services:		
Auto Inspections	\$	504
Serving Papers	3,760	
Carrying Concealed Deadly Weapon Permits	<u>200</u>	4,464
Other Receipts:		
Kentucky Correctional Psychiatric Center	\$	135
Miscellaneous	<u>21</u>	156
Interest Earned		<u>726</u>
Total Receipts	\$	232,854

Disbursements

Payments to State Treasurer:		
75% Operating Fund*	\$	206,020
25% County Fund	26,813	
Payment to County Treasurer	<u>21</u>	<u>232,854</u>
Balance Due at Completion of Audit	<u>\$</u>	<u>0</u>

\*Includes reimbursed expenses in the amount of \$125,579 for the audit period. See Note 1 to the Financial Statement.

The accompanying notes are an integral part of this financial statement.

PIKE COUNTY  
 NOAH STEPHEN FRIEND, FORMER COUNTY SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND  
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND  
AND COUNTY FUND WITH THE STATE TREASURER

For The Period of December 1, 2002 Through January 5, 2003

	75% Operating Fund	25% County Fund	Totals
Fund Balance -December 1, 2002	\$ 53,024	\$	\$ 53,024
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	206,020		206,020
Fees Paid to State - County Funds (25%)		26,813	26,813
Total Funds Available	<u>\$ 259,044</u>	<u>\$ 26,813</u>	<u>\$ 285,857</u>
<u>Disbursements</u>			
Pike County Fiscal Court	\$ 102,525	\$ 26,813	\$ 129,338
Personal Services-			-
Sheriff's Salary	6,671		6,671
Deputies' Salaries	90,118		90,118
Employee Benefits-			
Employer's Share Social Security	6,999		6,999
Employer's Share Retirement	5,654		5,654
Employer's Paid Health Insurance	12,072		12,072
Operating Expenses	<u>35,005</u>		<u>35,005</u>
Total Disbursements	<u>\$ 259,044</u>	<u>\$ 26,813</u>	<u>\$ 285,857</u>
Fund Balance - January 5, 2003	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of this financial statement.

PIKE COUNTY  
NOAH STEPHEN FRIEND, FORMER COUNTY SHERIFF  
NOTES TO THE FINANCIAL STATEMENTS

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and periodically paid to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

B. Basis of Accounting

The financial statements have been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at January 5, 2003

The Attorney General issued a letter which stated that some receipts of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are receipted in the 75 percent fund.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

PIKE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
January 5, 2003  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months and 6.34 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of January 5, 2003, the Former Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Former Sheriff's agent in the Former Sheriff's name, or provided surety bonds which named the Sheriff as beneficiary/obligee on the bonds.

Note 4. Forfeiture Fund

The Pike County Sheriff maintains an official bank account for monies obtained from seizure and sale of property used in illegal drug activities. The purpose of this fund is to purchase necessary equipment for operating the Sheriff's office. The beginning balance as of January 1, 2002 was \$8,687. Interest received was \$104 and \$932 was expended. The balance of the drug forfeiture fund as of January 5, 2003 was \$7,858.



COMMENT AND RECOMMENDATION



PIKE COUNTY  
NOAH STEPHEN FRIEND, FORMER COUNTY SHERIFF  
COMMENT AND RECOMMENDATION

For The Period of December 1, 2002 Through January 5, 2003

INTERNAL CONTROL - MATERIAL WEAKNESSES:

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We are recommending that the following compensating controls be implemented to offset this internal control weakness: 1) The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger; 2) The Sheriff should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earning records; 3) The Sheriff should periodically compare invoices to payments; 4) The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook.

*County Sheriff's Response:*

*No Response.*

PRIOR YEAR:

- Lacks Adequate Segregation Of Duties

*County Sheriff's Response:*

*Due to size of department, unable to comply.*

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the Former Pike County Sheriff for the period of December 1, 2002 through January 5, 2003, and have issued our report thereon dated January 23, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Former Pike County Sheriff's financial statements for the period of December 1, 2002 through January 5, 2003, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Former Pike County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -  
January 23, 2004



